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CENTRAL INTELLIGENCE AGENCY

19 November 1948

INTELLIGENCE MEMORANDUM NO. 76

SUBJECT: Economic Trends in the USSR

The economy of the USSR has improved rapidly since 1945 but production is still slightly below the 1940 level. In terms of ruble values the Soviet Union is meeting the objectives of the fourth Five-Year Plan, but in terms of physical units of production many key industries are failing to attain their goals. Despite the recent Soviet announcement that during the first nine months of 1948 total production exceeded the average 1940 level by 14 percent, an analysis of the various industrial and agricultural components that make up this production index reveals a less favorable picture of Soviet Economic revival.

It must be emphasized that this is an over-all production figure which fails to reveal the lack of essential uniformity in production increases throughout the numerous segments of the economic complex. Some branches of industry have exceeded their norms while others have fallen short. The failure of some segments of industry to meet the plan requirements has far-reaching effects in a planned economy. Under the current Five-Year Plan, those main groups which have failed to reach 1940 production levels include: steel, transportation, agriculture, heavy construction, machine tools, and basic heavy machinery. The failure of these important branches to regain their 1940 levels presents serious difficulties to the Soviet planners and detracts from the sizeable advances over 1940 made by such industries as chemicals, petroleum, coal, aluminum, and electric power.

Further factors which should be taken into account in evaluating the general production increase are as follows:

- a. A disproportionately large part of production must constantly be assigned to maintenance and repair of inefficient plants and low-quality equipment.

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b. A part of the increase in production must be attributed to the addition of industry and resources in newly acquired territory.

c. A sizeable part of additions to industrial capacity resulted from reparations, war booty, and exploitation of Satellites. To this must be added the productive and technical ability of engineers, technicians, skilled and semi-skilled labor in POW camps, and those groups brought in from occupied and acquired areas.

Economic recovery to the 1940 levels, then, is not as complete as the Soviets imply. It must be emphasized, however, that their state-controlled economy requires relatively little change in mobilization for war and has forced consumer goods production to the barest minimum both in time of war and of peace. This permits greater emphasis on capital goods production than is possible in capitalist countries and basically strengthens their economy.

In international economic relations, the Kremlin is currently intensifying its efforts to acquire specific items of industrial equipment and raw materials from the West, partially as the result of the combined Soviet-Satellite inability to make up these deficiencies within Eastern Europe. The ability of the Soviet countries to obtain those items will depend in part upon (1) the extent and effectiveness of export controls and (2) trade concessions that must be made in the interests of Western European recovery.

While economic considerations alone do not determine Soviet foreign policy, the state of the Soviet economy currently acts as a deterrent on the implementation of Soviet aggressive designs. The above analysis of Soviet economy, therefore, tends to substantiate the belief that Soviet efforts will continue to be concentrated upon (1) consolidation of control over the Eastern European Satellites and over occupied Germany and Austria; and (2) furthering of Moscow-dominated Communist expansion through the activities of native Communist parties. The current rate of improvement in the Soviet economy will not in itself warrant substantial changes in the timetable of Soviet policy implementation.

Selected fields of the Soviet economy are commented on in Enclosure A.

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